

Collateral Management News



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Welcome to the first issue of *Collateral Management News* for 2006. The year has got off to a great start for JPMorgan's Collateral Management business and, we hope, an equally strong start for your own businesses. We are delighted to have been top-rated in the Europe, North America and Global categories of the *Global Custodian* Tri-Party Securities Financing Survey. We see this accolade as a reflection of the significant investment we have made in our service. This success also reflects the contributions of our clients who have worked with us in developing a leading collateral management capability.

In this issue of *Collateral Management News*, we present some of the latest developments in our offering. These, we hope, give a flavour of why our collateral management capabilities are so highly rated.

We extend our thanks to the many clients who have worked with us in developing our suite of products and to all those who responded to the survey. I hope you will find this newsletter of interest and that you will continue to provide your much-valued feedback on our services.

JPMorgan tops the charts in Tri-Party Securities Financing Survey

In the 2006 *Global Custodian* Tri-Party Securities Financing Survey, JPMorgan was the only firm to be 'top-rated' in the Europe, North America and Global categories. The *Global Custodian* client perception survey of 153 clients declared JPMorgan as "the first genuinely global tri-party provider."

Client feedback from the survey praised JPMorgan as providing "excellent product development and relationship management." Another client commented, "The overall service is hard to fault. Extremely proactive, takes time to understand our business requirements and provide solutions. Client service, back to front, is excellent."

Once again we would like to thank all those who took the time to complete the survey.

APRIL 2006

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Collateral Management new recruits

John Rivett and Grant Mansfield recently joined the Collateral Management team to focus on delivering initiatives for the Securities Collateral Management (SCM) Product. John and Grant join us from Cargill Investor Services.

Meanwhile, Michelle Crosbie joins the Clearance and Collateral Management group as global head of Service Delivery. Michelle has been with JPMorgan for five years and has responsibility for the Globeclear Client Service and SCM Client Management and Transitions teams.

The New York Collateral Management group welcomes two new team members - Dan Ulrich joins as DCM sales manager and Christian Bullaro as the DCM relationship manager. They join us from JPMorgan Trust Services and Bank of New York respectively.

JPMorgan supports Spanish equities in tri-party

Recent JPMorgan due diligence has confirmed our ability to support Spanish Equities in tri-party arrangements. JPMorgan will be communicating with clients over the coming weeks to highlight some specific Spanish market practices. Please refer any questions to - John Rivett (john.l.rivett@jpmorgan.com or +44 (0) 20 7 777 2538). The key points highlighted by our due diligence are summarised below:

1. Legal Council has confirmed that transfer of title is perfected when the securities move using the Spanish Stock

Loan Mechanism in Iberclear. The use of the Iberclear Stock Loan Mechanism avoids the three day registration turnaround and associated costs incurred when a free of payment transfer is used.

2. In addition, it has been confirmed that the Iberclear Loan Mechanism cannot be used where the term is greater than a year, necessitating substitution within 365 days.

3. The Iberclear Stock Loan Mechanism does not allow for the cancellation of obligations. Legal Counsel has advised that this does not present an issue if it can be demonstrated that the loan obligation is no longer valid as a result of the default of one party or a corporate event.

JPMorgan Worldwide Securities Services (JPMWSS) adds Scandinavian currencies to its repo product offering

Driven by client demand, in February 2006 JPMWSS added three further currencies to its tri-party repo service, namely Danish Krone (DKK), Norwegian Krone (NOK) and Swedish Krona (SEK). For more information about cut-off times or other currencies available in the JPMorgan tri-party repo collateral management programme, please contact Philip Morgan, (philip.c.morgan@jpmorgan.com or +44 20 7 777 5455).

JPMorgan hosts rehypothecation roundtables

JPMorgan has recently hosted a number of working group sessions to discuss rehypothecation. Held in London and Brussels, the sessions outlined

JPMorgan's offering and gave the attendees a chance to ask questions and discuss the practical issues presented by rehypothecation. The roundtables proved key in validating our assumptions and the contributions made by attendees will be incorporated into our final offering. Please contact your usual JPMorgan contact for further information.

Basel II session

JPMorgan attended a meeting of tri-party providers to discuss the position of tri-party agents under the new Basel II regulations. It was agreed that a working party be formed before meeting the FSA to discuss the possibility of a different treatment for tri-party in Basel II.

Although the U.S. implementation of Basel II has been delayed until 2009, with legislation still in the preliminary stages the EU is pressing ahead with the original timetable regardless. The fact that Belgian supervisor recently stated that Basel I will no longer be acceptable from 2007 is evidence of the EU's determination despite the challenges it faces.

On a global level, China has announced it will continue to use Basel I due to a significant number of non-performing loans amongst the assets of Chinese banks. India, however, has stated that the standardised approach will be enforced and, as skills and technology develop, companies will be allowed to move to more advanced credit approaches. It is anticipated that by 2015, Basel II will cover the majority of the banking industry.

Basel II should not be viewed as simply a

Upcoming events

RMA CONFERENCE, ROME
25 - 27 April, 2006

JPMORGAN LUXEMBOURG FORUM
27 April, 2006

**JPMORGAN OTC DERIVATIVES
FORUM, LONDON**
16 May, 2006

**JPMORGAN WORLDWIDE SECURITIES
SERVICES RUSSIAN FORUM**
17 May, 2006

JPMORGAN NORDIC FORUM
14 June, 2006

new regulatory burden. It is also an opportunity for companies and the market to better understand the risks involved in any transaction. The more competent a company is at assessing those risks, the better their decision-making will become.

Derivatives Collateral Management update

The explosion in the usage of OTC derivatives amongst asset managers led JPMorgan to develop its own OTC derivatives collateral management solution, JPMorgan CommanDSM.

JPMorgan CommanD helps organisations manage the complexities of using collateral against over-the-counter derivatives trades. A combination of reduced cost, significant OTC derivative collateral management expertise and a greatly reduced time to market make the service a compelling proposition.

JPMorgan CommanD moves beyond the traditional custodial elements of a collateral management solution by covering many of the post-trade functions, including OTC derivatives valuation, Credit Support Annex management, reconciliations, collateral custody and liquidity management. A fully scalable solution, JPMorgan CommanD leverages JPMorgan's extensive collateral management experience and market-leading infrastructure to provide clients with a more cost effective alternative to an in-house collateral management programme.

A prominent British life assurance and fund management group, one of the world's leading investment banks and a leading Danish pension fund – are the latest organizations to have chosen to use JPMorgan CommanD.

Karl Wyborn, head of Derivatives Collateral Management Sales for JPMWSS, said, "We are delighted that JPMorgan has been selected to support the derivatives collateral management needs of these prominent organisations. These wins are a strong endorsement of our agency solution model which helps clients more effectively handle the collateral process as they continue to grow their OTC derivatives book."



Stay on top of your game

For risk defence that's as good as your attack, ensure the top-rated collateral manager is on your team.

For more information on JPMorgan's equities, fixed income and derivatives collateral management services, please contact:

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